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By- Barkin, David

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The document is "the second in a series of reports which analyze the problems and effects of intergovernmental grants for education." The focus is on problems of "counting and locating" disadvantaged children who are to be served by Alementary and Secondary Education Act (ESEA) programs. Definitions of the poor for policy purposes, the geographic distribution of children eligible under ESEA, and the funding of the program are discussed within an economics frame of reference. Also, the rationale behind the ESEA criteria for eligibility is analyzed. (NH)

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by

David Barkin
Washington University

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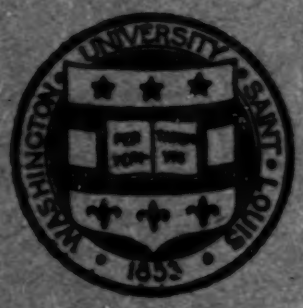

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ST. LOUIS, MO. 63130

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David Barkin
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FOREWARD

The Elementary and Secondary Education Act of 1965 is a cornerstone in the Federal government's program to improve opportunities for the poor. It is likely that its impact on educational finance will continue to grow and that similar programs will be developed in other fields of social welfare once budgetary constraints on domestic programs are eased. It is in this spirit that we are continuing to study the distributional impact of intergovernmental grants. This is the second of a series of reports which analyze problems and effects of intergovernmental grants for education.

Charles L. Leven, Director
Institute for Urban and Regional Studies
Washington University

POVERTY AND FEDERAL AID TO EDUCATION

By David Barkin

"I see one-third of a nation ill-housed, ill-clad, ill-nourished." Thirty years later President Roosevelt's description of poverty still plagues us but now we are concerned with the appropriate way of defining those people who fall into this poverty class and then of identifying and counting them. There are now countless estimates of the numbers of impoverished citizens, but none as high as the estimate cited by FDR at the beginning of his second term of office.

Our present concern is focused on identifying the poor and eliminating the sources of poverty. Many federal government programs aim to reduce inequalities of opportunity created by the existence of pockets of poverty. The Council of Economic Advisers (CEA) singled out education as a key tool in this effort: "Equality of opportunity is the American dream and universal education our noblest pledge to realize it." [7, p. 56]

The present administration developed a program to improve educational opportunities for the poor. This paper examines, within the framework of that program, the difficulties of defining and counting the poor. Two approaches to the problem of identifying the poor are discussed. The implications of using one or another approach for determining the eligibility for federal assistance are also examined. Data on the geographic incidence of poverty is analyzed in order to understand the effects of present expenditure policies for aid to education.

Defining the Poor for Policy Purposes

The problem of measuring the extent of poverty in this country and identifying those people who are living under substandard conditions has been widely discussed and thoroughly aired by several commentators [1, 7, 9, 12].

This section examines the implications for public policy of using alternative approaches to identify poverty stricken people.

Of the innumerable proposals for counting the poor, two are used by the federal government to distribute funds for poverty programs. Both proposals are weak because they use monetary income measures. These measures do not take into account annual fluctuations in personal income and the value of assets. In spite of these weaknesses both measures play an important role in influencing the way in which federal funds are spent on the "War on Poverty".

The first approach, based on a flat monetary cut-off point of $3,000 per family, was used by the CEA in the 1964 Annual Report when the war on poverty was initiated. At that time, the CEA described the poor as those people "who are not now maintaining a decent standard of living -- those whose basic needs exceed their means to satisfy them". [7, p. 57] After defining what these basic needs are in general terms, the Council determined that an upper limit of $3,000 a year in gross family income from all sources in 1962 prices was an appropriate definition of poverty.

In the following year the CEA accepted a second approach towards measuring and identifying the poor [8, pp. 162-3]. Developed by Mollie Orshansky of the Social Security Administration (SSA), this new way of looking at the problem identifies 124 different kinds of family groups and computes the food needs for each group. Poverty levels are defined as three times the basic food requirements for families of three or more people. Adjustments are made for farm families who are assumed to require about 30 percent less net cash income because of goods and services which they don't purchase in the market [4, 5].

Both approaches are used for specifying the recipients of federal financial assistance to the poor. In spite of an admonition by the CEA against using the $3,000 poverty limit for "determining eligibility for particular benefits" the Elementary and Secondary Education Act of 1965 (ESEA) was enacted

with a provision defining the recipients under Title I as school districts with children of families whose income is less than a specified dollar amount -- $2,000 in this case; an adjustment was incorporated into the law so that children of families covered by the aid for dependent children (AFDC) section of the Social Security Act and certain other groups of children are also eligible. The Office of Economic Opportunity, on the other hand, consistently chooses the flexible poverty line to define eligibility for its various programs aimed at aiding the poor.

The next section examines the geographic distribution of the poor. The differences between the numbers of eligible children resulting from the use of alternative measures of poverty are compared and analyzed. Subsequently the influence of a change in the measure on the allocation of funds is examined.

The Educationally Disadvantaged

The ESEA was designed to attack the educational problems of children whose scholastic performances are below that of the mean expected achievement for a given grade level. The Office of Education (OE) argued that one of the fundamental explanations for why many children do poorly is the poverty of the communities in which they live. Children are unprepared physically and intellectually for school because of the lack of adequate food and clothing and the low level of education in the home. In addition, their families are not able to adequately supplement the formal educational programs. As a result of this combination of circumstances children from families who are classified as poor require extra resources if their educational achievement is to be brought up to the national norms.

In the absence of an adequate way of measuring educational underachievement directly, the ESEA specifies that school districts with children from low income families and certain other categories will be able to apply for grants

from the federal government to supplement the regular school program for the benefit of "slow learners". The term "low income" was defined initially as below $2,000 per year regardless of the size of the family; a stipulation was added to include additional children by raising the limit to $3,000 in some future year when adequate funding of the program was assured.

A comparison of the definitions of the two approaches to defining low income discussed above reveals substantial differences in the poverty classifications. A definition based on the number of low income families, defined at either $2,000 or $3,000, would probably overstate the number of poor families in farm areas relative to a measure based on the Orshansky index which allows for the fact that a sizeable proportion of their basic needs can be obtained without cash income. Furthermore, the higher cost-of-living in industrialized and urban areas often results in higher money incomes without changing the real incomes for families in these parts of the country. It thus reduces the numbers of families whose children would be eligible for assistance under the aid program as it is currently administered; the SSA definition of poverty also ignores cost-of-living differentials among regions.

A notable difference between the two measures is the inclusion of an adjustment for family size in one of the measures. The Orshansky poverty cutoff point (income level) rises as the size of the family increases, which might tend to redress the imbalance between the two measures since farm families are typically larger than non-farm units. Unfortunately, a close examination of available data on family size does not permit a quantifiable analysis of the magnitude of such an effect. It seems, <u>a priori</u>, that this adjustment would not compensate for the very large correction in this measure for the in-kind incomes of farm families.

Finally, the definition of eligibility under the ESEA was expanded to include children of AFDC families whose incomes are above the cutoff mark and

others including juvenile delinquents, neglected and dependent children, and foster children in state institutions. In this way the program can encompass greater numbers of students from non-farm areas where incomes above the cutoff mark may still be insufficient to provide a "decent standard of living". These amendments are very important in the ESEA since one out of every six children eligible for assistance falls in one of these categories. They were added to the bill by the House of Representatives' Committee on Education and Labor against the wishes of the OE [10, Vol. 1, p. 582].

It appears, therefore, that the educationally disadvantaged are identified by a procedure which is only an approximation of the numbers of children who live in poor families. The OE, when asked to define its concept of eligible children, responded with the following statement:

> An educationally deprived child is one whose educational performance is below the grade level appropriate for his age and below the potential of the child because of his general social and economic background. The educationally deprived child may perform at a rate which is normal for his economic and social group but he does not perform at a normal rate on a systemwide, statewide, or nationwide basis [11, Vol. 1, p. 565].

It does not seem possible, at this juncture, to satisfactorily measure 'educational deprivation' directly because of the absence of a program and tools for a national assessment of educational progress. Poverty was selected as a surrogate for the purposes of distributing financial assistance under Title I of ESEA. A staff member of the OE "...emphasized that although the money is distributed in terms of the number of children in 'low income' families, it is by no means to follow only those children. It is intended to serve all children who are educationally disadvantaged." [2, p. 61]

The Geographic Distribution of Poor Students

This section identifies the effects of different definitions of poverty on the geographic distribution of children eligible for assistance under the

ESEA; only children between the ages 5 and 17 are included, as provided in the legislation. The results are compared with the analysis of the last section and then used to determine the differences in the dollar amounts each state would receive under different alternatives.

In Table 1 the numbers of children currently eligible for aid under the ESEA are presented in the first two columns. The second column includes all those children eligible under the AFDC provisions and delinquent, foster, and neglected children in state institutions. Similar figures are presented in columns three and four when the poverty cutoff level is raised from $2,000 to $3,000 as contemplated in the original proposal for the 1967 fiscal year; this change has been postponed indefinitely because of budgetary tightness. Finally the number of children qualifying for support under the SSA poverty index is displayed for direct comparison with the other figures.

The regional distribution is more readily examined in the next table where the proportionate share of eligible children according to each of the definitions is displayed. The addition of the other children, i.e., those categories added during the congressional debates, has a marked effect in shifting the regional balance from the South Atlantic and South Central states towards the coastal states in the Northeastern, Middle Atlantic, and Pacific regions as well as the East North Central area. This effect is more marked at the $2,000 level than at the $3,000 level because most AFDC families receive less than $3,000 in income; they are, therefore, included in column 3, whereas at the lower level they were counted among the "other" children.

The same type of shift is observed when moving from the monetary income poverty limit of $2,000 to the $3,000 cutoff point (columns 1 and 3). There is a definite redistribution from the South Atlantic and South Central states to the Northeast, Midatlantic, East North Central, and Pacific states; this is partially offset by the changes in the 'other' category (columns 2 and 4).

Table I

Regional Distribution of Children Eligible for Federal Aid to Education Under Title I of the ESEA, Fiscal Year 1967 (alternative definitions)

State	Actual Practice				Poverty Cutoff
	$2,000 Limit		$3,000 Limit		
	Low Income	Other	Low Income	Other	
Northeast	111,427	64,095	212,076	33,430	343,742
Maine	18,408	4,048	37,654	1,606	62,149
New Hampshire	5,932	2,453	12,299	1,647	21,404
Vermont	7,208	1,737	15,296	1,153	24,639
Massachusetts	47,065	30,427	88,322	14,746	145,636
Rhode Island	12,083	6,800	21,734	3,132	33,755
Connecticut	20,731	18,630	36,771	11,146	56,159
Middle Atlantic	435,299	334,448	803,874	193,953	1,218,267
New York	200,060	205,524	374,535	131,824	560,255
New Jersey	59,845	48,922	106,269	27,762	162,666
Pennsylvania	175,394	80,002	323,070	34,367	495,346
East North Central	558,957	223,921	971,317	90,795	1,452,301
Ohio	151,895	42,356	258,406	15,213	392,856
Indiana	76,386	11,847	133,058	5,594	208,310
Illinois	147,518	106,622	256,265	51,841	363,247
Michigan	124,712	42,949	213,259	6,041	328,255
Wisconsin	58,446	20,147	110,329	12,109	159,633
West North Central	402,966	77,192	685,522	36,838	887,365
Minnesota	77,280	24,865	134,111	15,720	177,391
Iowa	71,789	13,380	122,306	6,275	151,858
Missouri	125,159	19,453	206,047	4,126	266,527
North Dakota	23,346	2,979	39,967	1,719	52,857
South Dakota	30,712	4,178	47,441	2,739	58,127
Nebraska	34,417	2,929	62,636	1,732	79,472
Kansas	40,263	9,408	73,014	4,527	101,133
South Atlantic	1,262,328	72,224	1,976,199	34,391	2,590,750
Delaware	7,422	2,660	12,691	706	19,451
Maryland	53,716	27,530	97,228	7,610	153,457
D. C.	14,854	8,042	27,220	2,487	45,650
Virginia	167,874	11,535	268,565	7,294	357,576
West Virginia	106,406	2,677	153,038	2,677	199,943
North Carolina	323,096	11,431	487,675	5,268	598,038
South Carolina	206,638	1,691	296,556	1,691	366,098
Georgia	239,789	3,472	379,062	3,472	483,898
Florida	142,533	3,186	254,164	3,186	366,639

Table I (cont.)

State	Actual Practice $2,000 Limit Low Income	Actual Practice $2,000 Limit Other	Actual Practice $3,000 Limit Low Income	Actual Practice $3,000 Limit Other	Poverty Cutoff
East South Central	911,032	8,899	1,303,045	8,899	1,585,259
Kentucky	193,559	2,906	281,945	2,906	346,487
Tennessee	220,048	2,911	334,589	2,911	410,977
Alabama	242,522	1,789	348,908	1,789	440,967
Mississippi	254,903	1,293	337,603	1,293	386,828
West South Central	832,251	27,990	1,313,682	14,135	1,736,331
Arkansas	148,158	1,500	216,432	1,500	254,827
Louisiana	201,090	4,872	309,245	4,659	410,150
Oklahoma	84,779	16,567	140,979	2,918	178,678
Texas	398,224	5,051	647,026	5,058	892,676
Mountain	156,675	40,232	272,748	11,776	410,224
Montana	14,106	2,872	25,095	1,478	35,879
Idaho	12,257	2,645	23,720	934	34,311
Wyoming	5,408	1,177	9,646	211	14,199
Colorado	33,581	12,408	59,712	4,350	88,522
New Mexico	37,554	8,183	62,713	1,357	93,809
Arizona	38,851	7,782	64,771	1,493	97,722
Utah	11,680	3,715	21,461	1,241	37,352
Nevada	3,238	1,450	5,630	712	8,430
Pacific	277,205	222,051	487,412	131,676	740,461
Washington	33,072	16,286	62,082	7,304	90,291
Oregon	23,933	9,89[illegible]	42,599	4,991	61,509
California	206,572	190,060	358,247	116,193	543,819
Alaska	4,796	2,178	7,976	1,280	11,174
Hawaii	8,832	3,628	16,508	1,908	33,668
TOTAL	4,948,140	1,071,052	8,025,87[illegible]	555,893	10,964,700

Sources: Columns 1-4: U.S. Department of Health, Education and Welfare, Office of Education

Column 5: U.S. Department of Commerce, Bureau of the Census.

Table II

Regional Distribution of Children Eligible for Federal Aid to Education Under Title I of the ESEA, Fiscal Year 1967
(percent)

Region	$2,000 Limit		$3,000 Limit		Poverty Cutoff
	Low Income	All Eligible	Low Income	All Eligible	
Northeast	2.3	2.9	2.6	2.9	3.1
Middle Atlantic	8.8	12.8	10.0	11.6	11.1
East North Central	11.3	13.0	12.1	12.4	13.2
West North Central	8.1	8.0	8.5	8.4	8.1
South Atlantic	25.5	22.2	24.6	23.4	23.6
East South Central	18.4	15.3	16.2	15.3	14.5
West South Central	16.8	14.3	16.4	15.5	15.8
Mountain	3.2	3.3	3.4	3.3	3.7
Pacific	5.6	8.3	6.1	7.2	6.8
TOTAL*	100.0	100.0	100.0	100.0	100.0

*Components may not sum exactly to total due to rounding.

Source: Table I

At present, the $2,000 limit is the one being used for funding the program. If we were to introduce the regional distribution indicated in the fifth column of Table II, three regions, Midatlantic, East South Central, and Pacific, would have proportionately fewer eligible students; these students would be redistributed to all the other regions but especially in the South Atlantic region. If the limit were raised to $3,000, the differences between the two measures (columns 4 and 5) are small indeed.[1]

The distribution based on the poverty measure used by the SSA bears out the analysis of the last section. The single money income boundary between rags and riches includes more southern and fewer northern and west coast people in poverty categories than would be expected with the more flexible measure. Without any correction, therefore, the southern states would get a larger share of the program support than on the other basis. In the political process, however, the OE's original proposal was altered to redress the regional imbalance by adding additional categories of children. When these figures are compared with those based on the flexible poverty measure, we find that regional differences between the two measures diminish.

These conclusions are based on a regional disaggregation of the data. A note of caution is appropriate about their application to smaller geographic units. The original measure of poverty used by the CEA, the single money income limit, produced similar figures for the total number of people in poverty as the more refined measure developed by the SSA; in spite of this the latter measure was subsequently selected by the CEA and other federal agencies as the appropriate yardstick because it resulted in a different composition of people falling in this category. That is, about the same

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[1]This analysis is based on a shift from one level to the higher one during one period of time. Since most of the data is based on the 1960 Census there are no problems of annual adjustments -- instead we have a problem of "built-in obsolescence".

number of people were eliminated from poverty categories by a change from the one definition to the other as were added to the lists by this shift. Similarly, the small regional changes noted above may mask compensating changes in the numbers of school-age children added and eliminated from eligibility at the school district level in each region. Thus, although on balance the regional distribution of eligibility did not change very much with a change from the actual practice to the Orshansky measure, individual school districts might, in fact, feel the change rather dramatically; the analysis, at this level of aggregations, does not indicate whether or not this is so.

The Funding of the Program

The present legislation specifies that each state can qualify for an amount equal to one-half of its average current expenditures per child for each eligible child. The OE recommended this formula in order "to compensate for the variation in cost of living and cost of education between states." [11, Vol. II, p. 1183] There is marked correlation between state per capita income and state per pupil expenditures on education; as a result, the richer states receive larger per student allotments. Since income figures for rural families do not include in-kind income, this formula tends to offset possible variations in the measure of poverty between rural and urban communities.

This is clearly presented in Table III. When column one is compared with column two of Table II the extent of the redistribution induced by this variable grant becomes clear. The South Atlantic and South Central states have a smaller proportionate share of the total authorizations than students who qualify as poor; all the other states, and especially those in the Midatlantic area, show marked gains in their entitlements under Title I.

This same redistributive effect would be present if the definition were changed to the poverty level used by the SSA. There would, however, be smaller departures from the percentage distribution of poor children under this

Table III

Regional Distribution of Federal Aid to Education
Under Title I of the ESEA, Fiscal Year 1967
(percent)

Region	$2,000 Income Limit	$3,000 Income Limit	Poverty Cutoff
Northeast	3.2	3.3	3.6
Middle Atlantic	18.9	17.3	16.2
East North Central	15.0	14.5	15.4
West North Central	8.8	9.4	9.0
South Atlantic	17.7	19.0	19.3
East South Central	10.2	10.3	9.8
West South Central	12.6	13.8	14.3
Mountain	3.4	3.5	4.0
Pacific	10.0	8.7	8.2
TOTAL*	100.0	100.0	100.0

*Components may not sum exactly to total due to rounding.

Source: Table 1 and U.S. Senate, Committee on Labor and Public Welfare, "Maximum Basic Grants - ESEA of 1965."

alternative than was observed in actual practice. The Southern states would still receive a smaller proportionate share of the total funds while the Northeast and the Midatlantic regions would be prime beneficiaries.

The formula suggested by the OE and presently in use for the ESEA was explicitly designed to channel additional funds into the industrial states where the costs of providing an education are higher. As we have seen, the application of this formula does produce a distribution of funds even more heavily weighted towards the northern industrial areas than the alternative distribution based on the Orshansky measure. This is a second important feature of the legislation which corrects the distributional bias of the poverty measure based on a single monetary income limit.

Conclusions

This paper deals with the problems of counting and locating the poor children whose scholastic performances can be expected to be retarded relative to their more affluent peers. It may, however, be worthwhile to pause and think about the reasons for such measures as the one discussed above. Financial assistance is needed in those school systems where special educational problems are created by the concentration of large numbers of poor people. An economist might question the efficiency of present compensatory education efforts and ask whether or not there are superior ways to improve the student's academic performance with programs outside of the school system. It is not appropriate to continue this line of thought here but it should be considered by those examining alternative approaches to the problems created by the present inequality of opportunity confronting our nation's youth.

The alternatives considered in the present discussion relate to the definition of the way in which funds are distributed to school systems. There are significant regional differences between a measure based on a definition

of poverty using a single money income limit and one which is adjusted for the size of the family and farm and non-farm status. The former measure is not a satisfactory basis for distributing federal assistance to education. It turned out, however, that many of the differences between the two disappeared when a comparison was made between the actual system and the second one mentioned above. The present way of counting the poor uses the single money income limit to identify eligible children but also encompasses additional categories of poor and disadvantaged children.

The redistributive impact of this legislation was explicitly considered by the staff of the OE. They were concerned by the bias of a measure based on the $2,000 definition of poverty. As a result, the formula for distributing the funds was designed to correct this imbalance. Debate in Congress focused on the formula for distributing federal funds and the inadequacy of the proposed measure of poverty. Through amendments the definition of eligibility was expanded to increase the importance of industrialized areas while no change was made in the distributive formula.

The present system channels an even greater proportion of funds to urban and industrial areas than the Orshansky measure world. It seems, therefore, that in this case the political process worked out a formula consistent with Congressional perceptions of educational needs. These needs appear to be concentrated in urban ghettos where minority groups are living in very poor conditions and in poor rural farm areas where children are also performing below par. The changes which were introduced into the OE's original suggestion appear, therefore, to vitiate the need for another measure of poverty until we can obtain more frequent and accurate estimates of the numbers of poor children.

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